Supreme Court, U.S.
FILED
MAR 26 1993
OFFICE OF THE CLERK

No. 92-1413

In The

Supreme Court of the United States

October Term, 1992

WALGREEN COMPANY, ATICO INTERNATIONAL INCORPORATED, f/k/a J&M ENTERPRISES, d/b/a ATICO, NEW ATICO INTERNATIONAL, LTD., d/b/a NEW ATICO, a/k/a ATICO,

Petitioners,

v.

PHILIP OINESS and SUN PRODUCTS GROUP, INC.

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

James A. Lowe
Counsel of Record

James A. Lowe, P.C.
1100 Tower Colorado
1720 South Bellaire
Denver, Colorado 80222
(303) 753-8820

Duane Burton
1100 Tower Colorado
1720 South Bellaire
Denver, Colorado 80222
(303) 691-9119
Counsel for Respondents

COCKLE LAW BRIEF PRINTING CO., (800) 225 6964
OR CALL COLLECT (402) 342 2831

Questions Presented

I. Does the decision below conflict with *Salve Regina College v. Russell* so as to create non-uniformity among the circuits concerning the standard of review of state law questions, making a Writ of Certiorari appropriate?

II. Did the Court of Appeals for the Federal Circuit fail to properly review a state law question so as to make a Writ of Certiorari appropriate?

III. Did the decision below sanction a departure by the District Court from the proper notice and application of state law under 28 USC § 1652, making a Writ of Certiorari appropriate?

IV. Did the courts below in their determination and review of a state law issue violate the Tenth Amendment of the United States Constitution, making a Writ of Certiorari appropriate?

TABLE OF CONTENTS

Page

Questions Presented i

Table of Contents ii

Table of Authorities iii

Statutes Cited 1

Statement of the Case 3

Summary of the Argument 6

Argument 7

I. The Decision below is not in conflict with the Court's decision in *Salve Regina College v. Russell* or decisions of other circuit courts since *Salve Regina* was decided 8

II. The Court of Appeals for the Federal Circuit did not depart from proper practice in reviewing the District Court's decision 11

III. The District Court followed 28 U.S.C. § 1652 in applying Washington state law and the appellate court properly affirmed the decision 13

IV. The District Court and the Court of Appeals did not violate the Tenth Amendment to the United States Constitution 14

Conclusion 15

TABLE OF AUTHORITIES

Page

Hamilton Shoe Co. v. Wolf Brothers, 240 U.S. 251 (1915) 12

NLRB v. Pittsburgh Steamship Co., 340 U.S. 498 (1951) 12

Pacesetter Real Estate v. Fasules, 53 Wash. App. 463, 767 P.2d 961 (1989) 9

Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 415 F.2d 1152 (6th Cir. 1978) 10

Richlin v. N.Y. Life Ins. Co., 304 U.S. 202 (1938) 12

Salve Regina College v. Russell, 111 S.Ct. 1217 (1991) 8, 14, 15

Zimmerman v. Kyte, 53 Wash. App. 11, 765 P.2d 905 (1989) 9, 10

No. 92-1413

In The

Supreme Court of the United States

October Term, 1992

WALGREEN COMPANY, ATICO INTERNATIONAL INCORPORATED, f/k/a J&M ENTERPRISES, d/b/a ATICO, NEW ATICO INTERNATIONAL, LTD., d/b/a NEW ATICO, a/k/a ATICO,

Petitioners,

v.

PHILIP OINESS and SUN PRODUCTS GROUP, INC.

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

STATUTES CITED

RCW § 23B.14.050:

Effect of Dissolution. (1) A dissolved corporation continues its corporate existence but may not carry on any business except that appropriate to wind up and liquidate its business and affairs, including:

(a) Collecting its assets;

(b) Disposing of its properties that will not be distributed in kind to its shareholders;

(c) Discharging or making provision for discharging its liabilities;

(d) Distributing its remaining property among its shareholders according to their interests; and

(e) Doing every other act necessary to wind up and liquidate its business and affairs.

(2) Dissolution of a corporation does not:

(a) Transfer title to the corporation's property;

(b) Prevent transfer of its shares or securities, although the authorization to dissolve may provide for closing the corporation's share transfer records;

(c) Subject its directors or officers to standards of conduct different from those prescribed in chapter 23B.08 RCW;

(d) Change quorum or voting requirements for its board of directors or shareholders; change provisions for selection, resignation, or removal of its directors or officers or both; or change provisions for amending its bylaws;

(e) Prevent commencement of a proceeding by or against the corporation in its corporate name;

(f) Abate or suspend a proceeding pending by or against the corporation on the effective date of dissolution; or

(g) Terminate the authority of the registered agent of the corporation.

STATEMENT OF THE CASE

In 1983 and 1984, Steven K. Younger ("Younger") and Rudolf A. Fiedelak ("Fiedelak") developed a headrest which received a United States Patent, and it was sold under the trademark "Headchair". It was sold in an attractively designed sleeve type copyrighted display box. Sun Global Enterprises, Inc. ("Sun Global") was formed to market the product. Investors funded the operation in 1984 after all rights in the product, package and trademark were assigned to Sun Global. Philip Oiness ("Oiness") became an investor and later a secured lender to the corporation. The Headchair head rest was sold successfully until B & E Sales, Inc. ("B & E") began to sell infringing products for a few months. A patent and trademark infringement judgment was obtained against B & E (which has been in bankruptcy proceedings since 1988 but there is no indication that creditors will receive any dividend) for damages in the retail market of $2,940,622. Sun Global defaulted on its loan to Oiness and thereafter transferred all patent and other rights to him. Oiness, Younger and Dr. George Mayon ("Mayon") then formed Sun Products Group, Inc. ("Sun Products") which received an exclusive license to the Headchair head rest and resumed sales in the retail market. In 1986 and early 1987 it also began selling the product in the premium product and the advertising specialty markets.

On April 26, 1987, Walgreen Company ("Walgreen"), after previous test marketing, began coast-to-coast sales of a copy of the Headchair head rest which they obtained from Taiwan through a trading company, Defendant Atico International, Incorporated f/k/a J & M Enterprises, d/b/a Atico, New Atico International, Ltd., d/b/a New Atico, a/k/a Atico, ("Atico"). Walgreen's annual purchases from Atico equal about seventy million dollars. An infringement notice was given by Respondents immediately to Walgreen and passed on by it to Atico after the nationwide advertising and sale of the head rest copy began in April, 1987. Nevertheless, Atico continued to supply and Walgreen continued to sell the head rest product for more than four years in over 1600 stores, conduct which almost completely destroyed Respondents' retail market and did completely destroy its sales in the lucrative premium product market and in the advertising specialty market.

Oiness, Younger, Mayon, and other witnesses testified that the damage by the Walgreen infringement was so severe that virtually all sales stopped, largely because the retail price of the "knock off" sold by Walgreen was less than the manufacturing cost of the Respondents' American made product. Therefore, within a few months, all employees were released and Oiness was reduced to an unpaid employee operating out of his garage and selling the product a few remaining loyal customers. At the time of the trial, Oiness was continuing to sell the product in the retail market to the Eddie Bauer chain and to some small stores in California.

Suit was filed for patent infringement and copyright infringement (because the initial Walgreen package bore

the identical photograph of a model demonstrating Respondents' product as had been prepared for and used on Respondents' box; later Walgreen began using a slightly different photograph but one which was similar to the original photograph). Petitioners paid off a photographer in an effort to defeat the copyright claims and therefore the District Court granted summary judgment to Petitioners on those claims. Petitioners then paid a substantial sum to Fiedelak for a purported patent license and for his "favorable testimony" in a further effort to defeat the patent claims but the jury found that Fiedelak had no rights in the patent. After a two-week trial beginning on April 8, 1991, the jury found the Respondents' patent to be valid and infringed by both Petitioners and found the infringement to be willful. The jury found against the Respondents on their claim of a civil conspiracy and therefore did not award exemplary damages which had been sought under the conspiracy theory. The jury found both Petitioners had willfully infringed the patent and awarded $50,000 for retail damages and $250,000 for premium product and advertising specialty damages. The District Court trebled the damages and awarded limited costs.

The District Court found that Sun Products was not a proper party to the suit because it had been administratively dissolved by the Secretary of State for the State of Washington for failure to file a periodic corporate report. However, the District Court found that Oiness, as a shareholder and director of Sun Products, with the consent of the other shareholders/directors Younger and Mayon, could sue as a successor to the corporation. At the time of administrative dissolution, Sun Products

owed a substantial sum to the Small Business Administration.

Walgreen and Atico appealed to the United States Court of Appeals for the Federal Circuit on the issue of liability and the Respondents cross-appealed on the basis of insufficient damages and failure to award pre-judgment interest. In its decision of October 8, 1992, the Court of Appeals for the Federal Circuit upheld the finding of liability and denied all of the appellate relief requested by Walgreen and Atico. The Court of Appeals for the Federal Circuit did, however, find that the damages were inadequate and not in accord with the substantial evidence in the case. It further held that pre-judgment interest should have been awarded. The case was remanded for reconsideration of the award of damages for lost profits and the determination of pre-judgment interest.

Walgreen and Atico filed a Petition for Reconsideration with the Court of Appeals arguing that the redetermination of damages should not be exclusively limited to the award of lost profits. That petition was denied on December 4, 1992. The case has been remanded to the District Court for reconsideration of damages and award of pre-judgment interest.

SUMMARY OF THE ARGUMENT

The District Court permitted Plaintiff Oiness to pursue the patent infringement claim of Plaintiff Sun Products in a representative capacity as shareholder and director after finding that the Sun Products corporation had been administratively dissolved by the Washington

Secretary of State. The District Court relied upon explicit statute and case authority from the State of Washington which establishes the right of even a dissolved corporation to proceed with a lawsuit and to collect its assets.

The Petitioners, Walgreen and Atico, seek to avoid the judgment for willful infringement by arguing that the corporation had no right to proceed with the suit. In particular, they argue that the Court of Appeals did not conduct a *de novo* review of Washington state law when, in fact, the issue was fully briefed in that court but still decided against them.

The Respondents here argue that the District Court decision carefully followed Washington state law, that the Court of Appeals properly reviewed the issue and both courts logically and practically had to reject the Petitioner's unfounded argument.

There is no demonstrated departure from the proper standard of review. There is no real or apparent split of authority between the Court of Appeals for the Federal Circuit and the other circuits. There is no constitutional issue. There is, in short, no basis for granting the Petition for Writ of Certiorari.

ARGUMENT

The ruling of the District Court permitting Oiness to pursue the patent infringement claims on behalf of the corporation was proper. The Court of Appeals for the

Federal Circuit properly upheld the decision of the District Court as to the effect of Washington state corporation law on the Respondents in this case.

I. The Decision below is not in conflict with the Court's decision in *Salve Regina College v. Russell* or decisions of other circuit courts since *Salve Regina* was decided.

The District Court ruled properly on the question of the effect on a cause of action of the administrative dissolution of a corporate plaintiff under the law of Washington. The District Court followed the Washington Business Corporation Act and all existing Washington case law. This was not a determination of unsettled state law or inarticulable intuition as was the case in *Salve Regina College v. Russell*, 111 S.Ct. 1217, 1222 (1991). The Court of Appeals for the Federal Circuit considered the same statutes and case law presented in briefs which exhausted the state law inquiry and the appellate court simply ruled against the Petitioners. It is improper to fault the Court of Appeals for the Federal Circuit for improperly reviewing the matter based upon a one sentence question by a single judge during oral argument. The decision of the Court of Appeals does not reflect a failure or refusal to conduct a *de novo* review but merely found that the Petitioners state law argument was without merit: "In all respects, this court rejects those objections and affirms the district court's judgment." (Petition at A5)

In the District Court, Walgreen and Atico argued that the failure to file a corporate report within the time

period required and the subsequent administrative dissolution of the corporation meant that no action could be brought against the Petitioners egregious infringement. Carried to its logical conclusion, the argument advocates that all corporate property rights simply evaporate with the administrative dissolution of the corporation with a subsequent loss of rights to the shareholders and creditors but a windfall gain to debtors and those who have tortiously wronged the corporation (as Walgreen and Atico have done in this case). This is an offending argument which is contrary to case law in Washington and is explicitly rejected by the very corporate code statutes upon which Walgreen and Atico seek to rely.

The Washington Business Corporation Act (WBCA), revised in 1989, permits Oiness to prosecute this suit. The Revised Code of Washington (RCW) 23B.14.050 provides, "A dissolved corporation continues its corporate existence . . . (2) dissolution of a corporation does not: (a) transfer title to the corporation's property . . . (e) prevent commencement of a proceeding by . . . the corporation in its corporate name." (R-A988, A989). This revised statute retained the post-dissolution remedies of *Pacesetter Real Estate v. Fasules*, 53 Wash. App. 463, 767 P.2d 961 (1989) and *Zimmerman v. Kyte*, 53 Wash.App. 11, 765 P.2d 905 (1989). RCW 23.B14.340 both permits lawsuits by the corporation within two years of dissolution and lawsuits thereafter brought by the directors, shareholders and officers on behalf of the corporation and in its corporate name (R-A991). *Pacesetter, supra*, held that directors of a dissolved corporation, as trustees for the benefit of the shareholders and creditors, were entitled to bring an

action more than two years after a corporation is administratively dissolved. Additionally, *Zimmerman, supra* held that claims of a corporation which has been administratively dissolved devolved to the shareholders who could bring a suit on behalf of the corporation or in place of a corporation. The Petitioners quote from a legislative bill summary as if that were the law, when the foregoing language of the statute clearly shows the "summary" to be incorrect. There is no need to review legislative history when the statute is clear.

The District Court properly followed statute and case law of Washington and rejected the illogical and speculative interpretation urged by Walgreen and Atico. Patent rights, a license to a patent and a right to sue for infringement of those rights are property which does not simply vanish when a corporation fails to file appropriate forms. Indeed the willful infringement of Walgreen and Atico created the problems of the corporation which led to its reduced manpower and its subsequent filing oversight in this matter. The arguments of Walgreen and Atico advocate that an infringer should be able to get away with willful patent infringement if they inflict a serious enough wound on their victim. This argument offends common sense and common decency. Walgreen and Atico should not request this Court to deny Sun Products' shareholders and creditors the benefit of Sun Products assets.

Oiness individually and in his representative capacity on behalf of Sun Products met all of the requirements of *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 415 F.2d 1152, 1156 (6th Cir. 1978) to permit the award of lost profits. The Respondents established (1) demand for the

patented product, (2) absence of acceptable non-infringing substitutes, (3) Respondents' manufacturing and marketing capability to exploit the demand, and (4) the amount of profits the Respondents would have made. The jury found no credible evidence of available non-infringing substitutes. The uncontradicted evidence at trial was that the Respondents would have sold significant quantities of their product at substantial profit in three separate markets. About 900,000 units had been sold before the Walgreen/Atico infringement. Respondents owned the manufacturing tools and had the financial resources necessary to meet any anticipated demand but for the infringement. Walgreen and Atico undercut the price and destroyed the distribution network so thoroughly that little of the product could be sold. Oiness, after dissolution of Sun Products (of which he was not aware until after suit was filed) actually continued to operate the corporation after its dissolution and met what little retail demand was left after the willful infringement by Walgreen and Atico. The Petitioners do not, in their Petition for Certiorari, attack the decision of the Court of Appeals for the Federal Circuit on this issue.

II. The Court of Appeals for the Federal Circuit did not depart from proper practice in reviewing the District Court's decision.

A review of the decision of the Court of Appeals for the Federal Circuit does not support the speculative argument of Petitioners that the appellate review was improper or insufficient. It should be presumed that an appellate review was properly conducted except where the decision makes it clear that significant error occurred.

Here the Petitioners can cite nothing in the decision suggesting an improper scope of review, lack of *de novo* review or an improper decision. There is no logical or legal basis for the Petitioners interpretation of Washington corporation law to contradict the District Court's determination of a settled state law issue. It is not surprising that the Court of Appeals dealt with it simply.

As has been declared many times, this Court's jurisdiction by writ of certiorari should be exercised sparingly and only in cases of particular gravity and general importance or to secure a uniformity of decision. *Hamilton Shoe Co. v. Wolf Brothers,* 240 U.S. 251, 258 (1915). No such cause exists in this case to warrant exercise of this Court's jurisdiction. The Court does not exercise its jurisdiction by writ of certiorari merely to secure uniformity of decisions among the circuits and has confirmed the right of circuit courts of appeal to exercise independent judgment on matters controlled by state law. "As to questions controlled by state law, however, conflict among circuits is not of itself a reason for granting a writ of certiorari." *Richlin v. N.Y. Life Ins. Co.*, 304 U.S. 202, 206 (1938). Here there is not even a conflict among the circuits on a question of state law. Instead the Petitioners simply disagree with every court which has considered this particular state law question, including the Court of Appeals, the District Court and the Washington Court of Appeals.

The Court of Appeals for the Federal Circuit and not this Court has the normal and primary responsibility, given by Congress, for reviewing all matters concerning patent infringement. See, *e.g., NLRB v. Pittsburgh Steamship Co.*, 340 U.S. 498, 502 (1951) where an analogous special appellate structure existed. In such cases, forum

shopping is impossible and conflicts in decisions rare. This Court noted that certiorari is granted only "in cases involving principles, the settlement of which is of importance to the public as distinguished from that of the parties, and in cases where there is a real and embarrassing conflict of opinion and authority between the circuit courts of appeal." *Id.*

III. The District Court followed 28 U.S.C. § 1652 in applying Washington state law and the Appellate Court properly affirmed the decision.

The Petitioners appear to intentionally misapply Washington corporation law as discussed above. It is they and not the courts reviewing this matter who want to apply state law as they wish it were. The decision of the District Court was well founded on statute and case law of Washington and properly rejected the fanciful argument of Walgreen and Atico to the effect that corporate property vanishes with administrative dissolution of a corporation. Having appropriated the property of Sun Products for their own substantiai benefit, Walgreen and Atico naturally wish to argue that Sun Products and its shareholders and directors cannot pursue them for it. The simple fact is that Petitioners' view of the law is wrong.

This issue of the effect of Washington corporation law on this suit and these Respondents was argued in the trial court, decided against the Petitioners and argued in the appellate court but the Petitioners here were unable to persuade either court that their extreme view of Washington law had any logical or legal support. It was therefore rejected. Under these circumstances, the Court of

Appeals for the Federal Circuit can hardly be faulted for affirming the decision of the District Court.

IV. The District Court and the Court of Appeals did not violate the Tenth Amendment to the United States Constitution.

The Petitioners' same tired argument has been wrapped in constitutional garb for this point but it contains no more substance than before. Clearly, the District Court carefully considered the case law and statutes of the State of Washington. It did not substitute its own scheme for Washington corporation law. Any argument to the contrary is false. The Washington Code specifically provides that "a dissolved corporation continues its corporate existence but may not carry on any business except that appropriate to wind up and liquidate its business and affairs, including: (a) Collecting its assets . . . (e) Doing every other act necessary to wind up and liquidate its business and affairs. (2) *Dissolution does not . . . (e) Prevent commencement of a proceeding by* or against *the corporation in its corporate name.*" (Emphasis added.) The Petitioners' irrational position was not accepted by the District Court or by the Court of Appeals for the Federal Circuit.There exists no reasonable argument that the decision of the District Court as affirmed by the Court of Appeals for the Federal Circuit in any way infringes the 10th Amendment rights of the State of Washington. *Salve Regina College* pointed out that:

> Independent appellate review necessarily entails a careful consideration of the district

> court's legal analysis, and an efficient and sensitive appellate court at least will naturally consider this analysis in undertaking its review. . . . If the Court of Appeals finds the District Court's analytical sophistication and research have exhausted the state law inquiry, little more need be said in the appellate opinion.

Salve v. Russell, supra at 111 S.Ct. 1221. Thus, the decision of the Court of Appeals fully complied with this Court's requirements.

CONCLUSION

The Petition for a Writ of Certiorari should be denied because there is no real conflict between the Court of Appeals for the Federal Circuit and the Supreme Court or the other regional Circuit Courts of Appeal. The Court of Appeals followed the requirements of *Salve Regina College*. The District Court and the Court of Appeals for the Federal Circuit merely rejected an unsound argument concerning the meaning of settled Washington state law. There is no basis for reversing the decision of these two courts. There is no conflict between the circuits to resolve. There is no constitutional question at issue. The Petition for a Writ of Certiorari is merely a weak attempt of Walgreen and Atico to avoid paying the natural consequences of their deliberate outrageous behavior over many years. It is an unjust cause on which this Court

should not waste its time. The Petition for a Writ of Certiorari should be denied.

Respectfully submitted,

Attorneys for Respondents
JAMES A. LOWE
Attorney of Record

JAMES A. LOWE, P.C.
1100 Tower Colorado
1720 South Bellaire
Denver, CO 80222
(303) 753-8820

DUANE BURTON
1100 Tower Colorado
1720 South Bellaire
Denver, Colorado 80222
(303) 691-9119